

HEUBLEIN ANNUAL REPORT

1966

CLEVELAND PUBLIC LIBRARY
ECONOMICS INT. DIV.
CORPORATION FILE



A WORLD-WIDE COMPANY



*Heublein Executive Committee Members —
Seated, left to right: John G. Martin, Chairman,
Ralph A. Hart, President. Standing, left to right: Frederick E. Chapman,
William H. Mortensen, Lester E. Shippee,
Ed W. Kelley, Peter M. Fraser.*

Heublein Highlights

	1966	1965
Net sales.....	\$328,319,000	\$298,442,000
Income before income taxes.....	24,830,000	23,247,000
Income taxes — federal and state.....	12,062,000	11,609,000
Net income.....	12,768,000	11,638,000
Per common share.....	1.90	1.69
Cash dividends — per common share.....	.95	.75
Working capital.....	28,789,000	27,478,000
Long-term debt.....	—	2,803,000
Total stockholders' equity.....	75,817,000	71,515,000
Per common share.....	2.91	1.89
Number of common share stockholders.....	13,232	13,606

Report To Our Shareholders

The most significant progress in the history of our Company was achieved during the 1966 fiscal year. For the seventh consecutive year Heublein surpassed all prior records of financial performance. Equally important, the year brought unparalleled advances toward broad-based, balanced diversification with the purchase of Theo. Hamm Brewing Co., the largest acquisition in our 90-year history.

Net sales for the fiscal year 1966 were \$328,319,000, a gain of 10 percent over the previous year. Net income rose to \$12,768,000 or \$1.90 per common share, compared with \$11,638,000 or \$1.69 per common share a year ago — a 12 percent increase.

Among the accomplishments of this most successful year were:

- Smirnoff, one of our leading products, continued to achieve impressive sales gains both here and abroad, with domestic sales up 15 percent.
- Heublein Cocktails gained growing acceptance, with sales increasing 23 percent, compared with 17 percent for the prior year.
- A.1. Sauce, our leading food product, broke all previous sales records and is the country's top selling sauce.
- The Arrow Division, acquired two years ago, continued to increase its sales and profits by widening its marketing dominance in the control states (through state owned stores).
- Export sales reached \$2,175,000, a 76 percent increase over fiscal year 1965, while royalties exceeded \$895,000, a 39 percent increase over the prior year. International Division profits increased 79 percent over 1965.

In June, 1966, the Company acquired the Coastal Valley Canning Co., of Oxnard,

California, in exchange for 247,200 shares of Heublein common stock. During the year Heublein marketed two of Coastal Valley's major products, Snap-E-Tom Tomato Cocktail and Ortega Salsa. Sales of these products tripled in that period — convincing evidence of Coastal Valley's national potential for future growth.

During the year, Heublein became the exclusive U.S. importer and distributor of Jose Cuervo Tequila, the world-famous tequila, and of the world-renowned line of Bertani Italian wines.

The Company's new \$4,500,000 plant at Allen Park, Michigan, has been completed on a 12-acre site fronting Metropolitan Detroit's Industrial Expressway. The new plant, with a capacity of 2,500,000 cases per year, began production in August 1966 of Arrow and Heublein products.

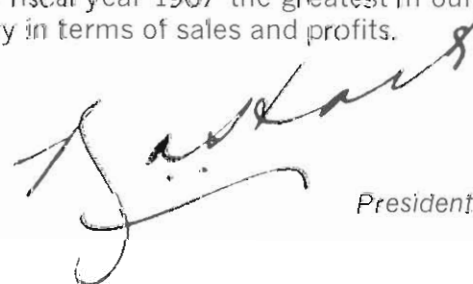
Christopher W. Carriuolo, Senior Vice President, Heublein Liquor Division, and Thomas McMaster, Senior Vice President in charge of the Arrow Division, were elected to the Heublein Board of Directors. D. H. Ankeny and Edward H. Hamm, directors of the Theo. Hamm Brewing Co., were also elected Directors of Heublein, Inc.

The Board of Directors elected Edward L. Hennessy, Jr., former Controller, I.T. & T., to the post of Vice President in charge of Finance. In accordance with our policy of promoting from within, we are pleased to announce that Martin J. O'Hagan, formerly Eastern Regional Sales Manager, Liquor Division, has been elected Vice President and Marketing Manager, Liquor Imports.

Heublein's position has never been stronger. For this we thank the Heublein team, our advertising agencies and our stockholders for their invaluable contributions to a banner year. Our confidence is exceeded only by our determination to make fiscal year 1967 the greatest in our history in terms of sales and profits.



Chairman



President



Success Story

This year, 1966, marks the fifteenth anniversary of the start of the Smirnoff sales boom. Current Smirnoff sales increases are among the largest since Smirnoff's introduction in the U.S. more than 25 years ago.

Smirnoff is not only breaking its own records, but its present rate of sales increase is nearly triple that of the U.S. liquor industry.

Smirnoff sales for the fiscal year ran more than 15 percent above the prior year while the national increase in all distilled spirit sales was but 6.2 percent for calendar year 1965.

Smirnoff's rise has been so rapid many people may not realize that today it outsells every brand of scotch, gin and bourbon. It is now the fourth largest brand of any type of distilled spirit in the U.S.

Vodka consumption has increased in a little more than a decade from virtually nothing to 10.4 percent of total distilled spirit consumption in calendar year 1965.

Smirnoff was responsible for making vodka a national favorite and contributed virtually all of the consumer promotion of the early years. Today, Smirnoff enjoys the benefits of this early exploitation and continues to dominate the consumer's mind. However, with the great increase in the young adult population in the last few years, major new marketing opportunities are opening up.

Until recently, young adults were increasing at the rate of about 2 million per year. Currently, the rate is 3 million annually and by 1970, the rate will be over 3½ million annually. On the average, this is a better educated, higher income group. They are brand conscious and tend to buy more sophisticated, "in" products. Their tastes in distilled spirits show a marked trend toward lightness and versatility as exemplified by Smirnoff. Research shows that these people form lasting drinking habits evidenced by the fact that where Smirnoff has been established longest, it is strongest in sales. For example, Smirnoff sales are greatest in California, the state where its popularity originated.

Hamm's

The Theo. Hamm Brewing Co. during the fiscal year ended June 30, sold 3,983,000 barrels of its famous beer compared with 3,805,000 barrels — 178,000 barrels or 4.7 percent more than the corresponding period of the previous year.

Hamm's has combined high product quality with pioneering marketing efforts to maintain a firm position among the nation's top ten brewers.

The distinctive, light flavor of Hamm's is the result of the ingredients used to produce it. Since Theodore Hamm founded the company in 1865, there has been constant emphasis on quality materials. Hamm's uses a special "pedigreed" variety of barley. Its own yeast culture has been developed and maintained from a single cell isolated in 1896. Hamm's hop ranch in California has consistently produced top quality hops and continually wins the Gold Medal at California's state fair.

Times and tastes have changed but Hamm's has kept pace with them. Modern methods and equipment have enhanced the original exacting standards.

The unique creativity of Hamm's advertising has had a profound effect on the consumer, and has won many awards in the industry. The brewery is the only advertiser in the world to win top honors in both radio and television in the International Broadcasting Awards competition.

Once a regional brewer in St. Paul, Hamm's now has additional plants in San Francisco, Los Angeles and Houston. Its distribution area continues to expand and today includes 31 states plus Guam and overseas military bases.

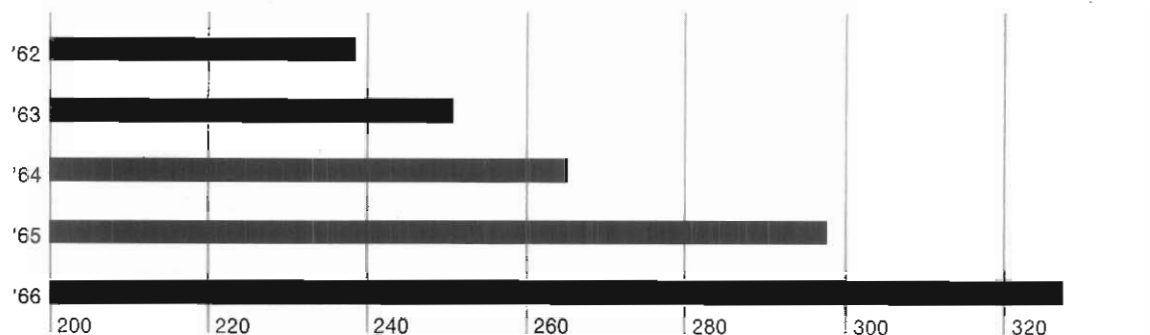
Hamm's begins its second century from a position of strength as one of the recognized leaders in the brewing industry.



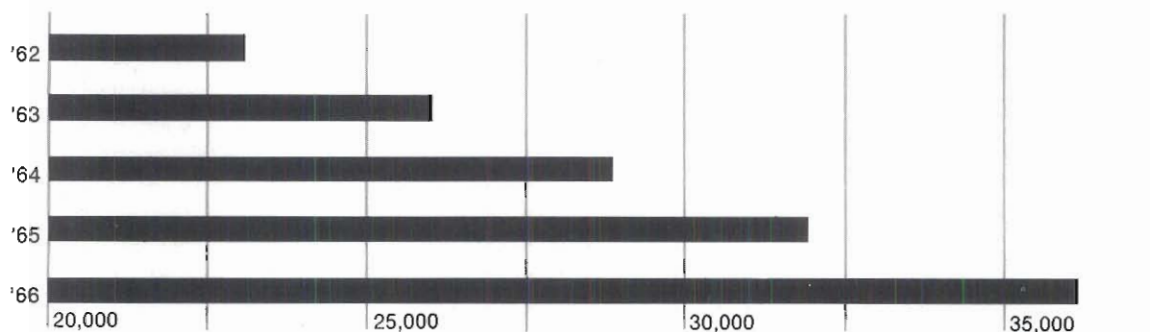
HEUBLEIN, INC.

Corporate Growth-5 Year Review

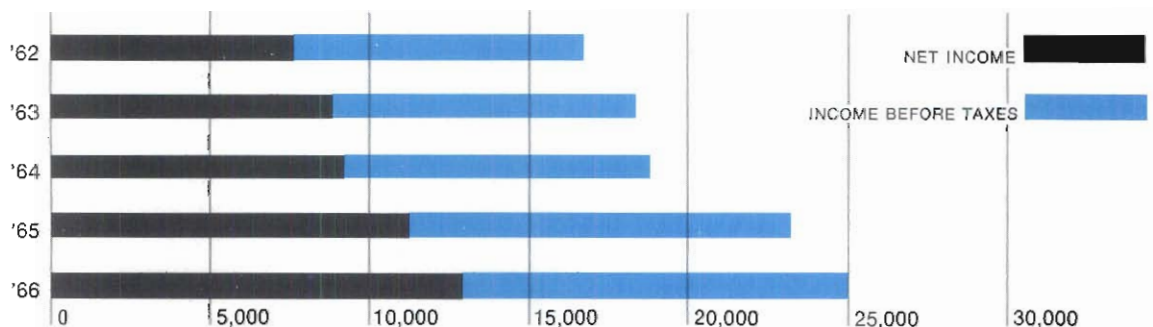
NET SALES (\$ 000 Omitted)



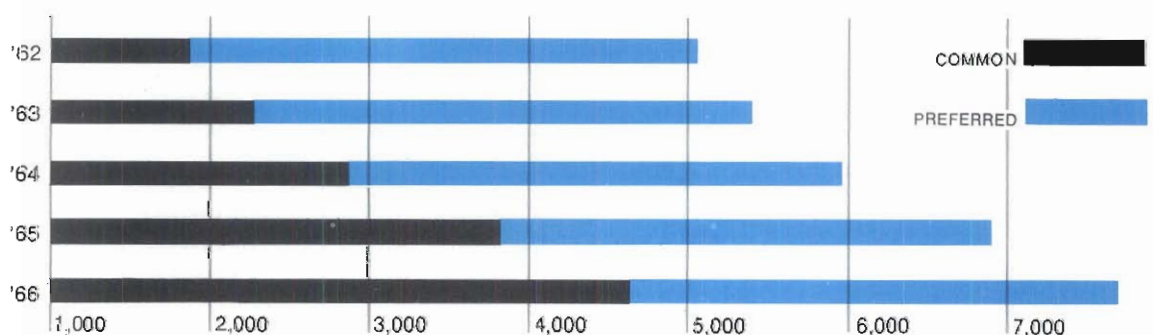
OUR MARKETING INVESTMENT IN ADVERTISING, MERCHANDISING AND SALES PROMOTION (\$ 000 Omitted)



INCOME (\$ 000 Omitted)



DIVIDENDS DECLARED — PRO FORMA (\$ 000 Omitted)



OUR BUSINESS HERE AND ABROAD

Liquor Division News

The Heublein Liquor Marketing Division continues to increase sales and distribution of its quality beverage products in all domestic markets. Off to a momentous start this year, the highly successful "Smirnoff Mule" program, launched a year ago, has been greatly expanded and recast around a host of major celebrities.

In addition to Miss Julie Newmar and Killer Joe Piro, who appeared on behalf of Smirnoff last year, the new Smirnoff Mule campaign also features Monique Van Vooren and Woody Allen, in the largest magazine, newspaper, Sunday supplement and outdoor advertising program we have ever undertaken. This sophisticated advertising, which maintains the high social acceptance of the brand, also contains a memorable sales message. Inherent in the very name of the drink, "Smirnoff Mule," is a powerful suggestion to drink by brand name.



Heublein Cocktails, undisputed leaders in the marketplace, set new sales records. Packages and labels have been redesigned in keeping with the smart, provocative advertising campaign supporting the line. In addition, three Heublein Gold Label Cocktails joined the other 11 cocktails. These are the 11 to 1 Gin Martini, the 11 to 1 Vodka Martini and the Scotch Mist.

Additional advertising investments for our cocktails, plus a totally new advertising campaign featuring celebrities endorsing Heublein Cocktails with the daring and persuasive copy headline, "Heublein Cocktails . . . better than most people make," have made important contributions to our sales increases.



Heublein, building a broadening base of imported wine sales in the U.S., is steadily increasing the lead of Lancer's Crackling Vin Rosé, from Portugal, as the largest selling imported wine of its type in the world. Led by Harvey's Bristol Cream and boasting Harvey's Selections of outstanding French and German table wines, Harvey's imports continue to win growing consumer acceptance from coast to coast. This is also true of the newest member of the wine group, world-renowned Bertani Italian wines.

Arrow Division News

Arrow sales and profits have increased 25 percent since the firm was acquired by Heublein in 1964. McMaster's Scotch leads all other American bottled scotches in sales in the control states. Scotch imported from Scotland and bottled in America is the fastest growing segment of



the Scotch whisky business, which represents 28 percent of the scotch market in the U.S. McMaster's American bottled Canadian whisky shows a 44 percent increase over two years ago. Arrow continues its 21-year leadership in the sale of cordials in the 17 control states, while further broadening its share of the total U.S. market.

International Division News

Heublein's International Division consistently contributes increased profits from royalties on Smirnoff sales, additional licensing agreements, increased direct export and manufacture abroad of Heublein Cocktails and other products.

Throughout the world Smirnoff sales show major gains. The gains occur where new production is started and in countries where production has been underway for some time, sales have risen significantly.



In New Zealand, for example, six years ago 500 cases of all brands of vodka were sold. This year an estimated 30,000 cases of Smirnoff alone will be sold to the nation down under whose population is only 2,300,000. The market potential for Smirnoff around the world is obviously substantial.



Theo. Hamm Brewing Company News

The Theo. Hamm Brewing Co., a wholly-owned subsidiary acquired by Heublein

last fall, is the nation's 10th largest brewer in terms of barrel sales, producing more than 3,980,000 barrels annually. Hamm's sales in 31 states exceed those of the previous year in both dollars and barrels, making substantial contributions to common stock earnings. Hamm's has changed from a decentralized to a centralized organization headquartered in St. Paul, Minnesota. Marketing and advertising have been strengthened and re-aligned. New products, such as the Hamm's Tapper Keg and Hamm's Draft in all-aluminum cans, are being introduced.

Heublein President Ralph A. Hart has been elected President of Hamm's succeeding William C. Figge, who retired from the Hamm's Presidency in February, 1966.

Leonard Johnson, formerly Hamm's director of advertising, has been promoted to Vice President — Marketing. Harry S. Diffenderfer, III, joined Hamm's as Vice President-General Sales Manager from the H. J. Heinz Company, Pittsburgh, where he had been general manager, grocery sales division. Herman Vedder, Jr., formerly general manager, South Central Division, Houston, has been promoted to Vice President and Divisional Sales Manager, St. Paul. Charles J. Herbert, formerly assistant to the vice president, open states, Heublein Liquor Division, was named Vice President and Sales Manager, Chicago Division of Hamm's. Joining Hamm's as Controller is Donald E. Albers, formerly with the F. & M. Schaefer Brewing Co., New York.

Food Division News

A.1. Sauce, the company's leading food product, continues its leadership as the nation's largest selling meat sauce and is increasing its contribution to company profit. Television advertising and other marketing activities are convincing more consumers that A.1. has not only great appeal as a pour-on meat sauce but also for all types of ingredient and barbecue use. Domestically produced Escoffier Sauces—Diable, Robert and Melba, are gaining steadily, with sales seen doubling by 1970. Grey-Poupon Dijon-type Mus-



tard, also produced at the Hartford Food Plant, is winning broader and broader national distribution with attendant gains in sales. Maypo Oat Cereal and Maltex Cereal have held their national sales positions. The Maypo package has been redesigned and additional flavors and individual serving packs are in test markets. Coastal Valley's Snap-E-Tom Tomato Cocktail and Salsa, under the Ortega label, hold forth inestimable promise. Snap-E-Tom with Smirnoff makes the perfect Bloody Mary. Ortega Salsa is rapidly becoming a favorite ingredient for a tastier meat loaf, omelette and casserole.





NOTED STARS. WOODY ALLEN AND MONIQUE VAN VOOREN. ENJOY THEIR SMIRNOFF MULES TOGETHER.

THIS IS THE DRINK THAT IS...THE SMIRNOFF MULE

Give a Mule party! You couldn't serve a smarter drink. And your guests will have a ball. For a cool, refreshing Mule, made with Smirnoff and 7-Up®, is a choice you can start with and stay with. Only crystal clear Smirnoff, filtered through 14,000 lbs. of activated charcoal, blends so perfectly with the flavor of 7-Up. So follow the rule for mixing a Mule. *Make it with Smirnoff!*

How to make the Smirnoff Mule
Jigger of Smirnoff over ice. Add juice of $\frac{1}{4}$ lime. Fill Mule mug or glass with 7-Up to your taste. Delicious!

Set of 6 Mule mugs—\$3.00. Send check or money order payable to Smirnoff Mule, Dept. L, P.O. Box 225, Brooklyn, N.Y. 11202.

Always ask for *Smirnoff*®
VODKA It leaves you breathless®



Now...real draft in all-aluminum cans!



**Hamm's announces the finest draft beer ever brewed...
in the best take-home container ever made.**

Are you a draft man? Then draw one from the first take-home container perfect enough to hold Hamm's Real Draft Beer... the all-aluminum can. Only Hamm's has it.

What's special about it? Just that aluminum is the one metal that treats beer flavor kindly. Brewers know this. That's why they put draft beer in all-aluminum kegs.

Now, here's Hamm's exclusive new all-aluminum can. Like a keg, it's seamless, fast-chilling and rust-proof. And with it, a great draft beer—the finest Hamm's has ever brewed—comes home for good.

All the smooth, mellow, non-filling lightness, the brewery freshness, of the real Hamm's draft is perfectly protected inside

this new can. And it goes where you go.

Take home a couple of six-packs. A quick snap of the ring-pull tab and you've got Hamm's Real Draft Beer on tap. Great? It's out of this sky blue waters world!

**From the land of sky blue waters
comes the water best for brewing**

©1985 The Hamm-Brewery Co. rights in St. Paul, Minn., San Francisco, Los Angeles, Houston



Heublein, Inc.

CONSOLIDATED STATEMENT OF INCOME

Years ended June 30, 1966 and 1965

	1966	1965
Net sales.....	\$328,319,000	\$298,442,000
Cost of sales.....	<u>244,601,000</u>	<u>222,839,000</u>
Gross profit.....	<u>83,718,000</u>	<u>75,603,000</u>
Expenses:		
Selling and advertising.....	49,129,000	43,372,000
Administrative and general.....	<u>10,195,000</u>	<u>9,065,000</u>
	<u>59,324,000</u>	<u>52,437,000</u>
	<u>24,394,000</u>	<u>23,166,000</u>
Other income (deductions):		
Interest income.....	275,000	326,000
Interest expense.....	(503,000)	(594,000)
Miscellaneous — net.....	<u>664,000</u>	<u>349,000</u>
	<u>436,000</u>	<u>81,000</u>
	<u>24,830,000</u>	<u>23,247,000</u>
Provision for income taxes:		
State.....	1,057,000	950,000
Federal.....	<u>11,005,000</u>	<u>10,659,000</u>
	<u>12,062,000</u>	<u>11,609,000</u>
Net income (Note 1).....	<u>\$ 12,768,000</u>	<u>\$ 11,638,000</u>

Provision for depreciation charged to income—1966, \$5,509,000; 1965, \$5,235,000.

See accompanying notes.

Heublein, Inc.

CONSOLIDATED BALANCE SHEET

ASSETS

	1966	1965
Current assets:		
Cash.....	\$ 6,246,000	\$ 5,339,000
Marketable securities, at cost (approximately market).....	2,386,000	4,048,000
Accounts and notes receivable, less allowance for doubtful accounts.....	35,966,000	28,909,000
Inventories, at lower of cost (generally first-in, first-out) or market:		
Finished products.....	11,590,000	11,033,000
Products in process.....	2,886,000	2,801,000
Raw materials.....	7,637,000	7,004,000
Supplies.....	2,748,000	2,974,000
Total inventory.....	<u>24,861,000</u>	<u>23,812,000</u>
Prepaid expenses.....	<u>1,272,000</u>	<u>1,434,000</u>
Total current assets.....	70,731,000	63,542,000
Property, plant and equipment, at cost:		
Land.....	2,842,000	2,779,000
Buildings.....	39,864,000	36,649,000
Machinery and equipment.....	<u>52,752,000</u>	<u>48,443,000</u>
	95,458,000	87,871,000
Less accumulated depreciation.....	<u>56,194,000</u>	<u>53,111,000</u>
Net property, plant and equipment.....	39,264,000	34,760,000
Other assets.....	2,549,000	7,625,000
Trademarks and contracts, at cost less amortization.....	2,316,000	2,208,000
Goodwill, at cost less amortization.....	<u>3,208,000</u>	<u>2,563,000</u>
	<u>\$118,068,000</u>	<u>\$110,698,000</u>

June 30, 1966 and 1965

LIABILITIES AND STOCKHOLDERS' EQUITY

	1966	1965
Current liabilities:		
Accounts payable.....	\$ 11,362,000	\$ 8,677,000
Payables in connection with mergers (Note 1)....	—	6,425,000
Federal and state taxes on income.....	6,953,000	7,065,000
Accrued liabilities:		
Taxes, other than federal and state income taxes	12,707,000	5,005,000
Salaries and wages.....	3,608,000	2,810,000
Other.....	3,931,000	3,878,000
Cash dividends payable.....	1,978,000	1,091,000
Long-term debt due within one year.....	1,403,000	1,113,000
Total current liabilities.....	41,942,000	36,064,000
Long-term debt due after one year:		
4¾% debentures.....	—	1,403,000
8% debenture bonds.....	—	1,400,000
	—	2,803,000
Deferred federal income tax relating to accelerated depreciation used for income tax purposes	309,000	316,000
Stockholders' equity:		
Preferred stock — par value \$100 per share (Note 2):		
5% preferred — 500,000 shares authorized		
Issued — 420,032 shares, less 10,290 shares in treasury in 1966.....	40,974,000	42,003,000
5% convertible preferred — 200,500 shares authorized		
Issued — 200,031 shares.....	20,003,000	20,003,000
Common stock — par value \$1 per share (Note 3):		
Authorized — 10,000,000 shares		
Issued — 5,109,234 shares (5,037,754 in 1965)	5,109,000	5,038,000
Paid-in surplus.....	1,326,000	—
Earned surplus.....	8,478,000	4,471,000
	75,890,000	71,515,000
Less cost of 2,094 shares of common stock in treasury.....	73,000	—
Total stockholders' equity.....	75,817,000	71,515,000
	\$118,068,000	\$110,698,000

See accompanying notes.

CONSOLIDATED STATEMENT OF PAID-IN AND EARNED SURPLUS

Year ended June 30, 1966

	Paid-in surplus	Earned surplus
Balance at beginning of year — as previously reported	\$15,300,000	\$20,596,000
Merger adjustments (Note 1):		
Balances of merged companies at July 1, 1965.....	27,086,000	10,171,000
Excess of option price over par value of Theo. Hamm Brewing Co. common stock issued on exercise of options prior to merger.....	76,000	—
Excess of cost over stated value of 811,600 shares of Theo. Hamm Brewing Co. common stock repur- chased prior to merger.....	(10,547,000)	(9,337,000)
Excess of par value of 620,063 shares of 5% preferred stock and merger expenses over stated value of common stock of Theo. Hamm Brewing Co. ex- changed in merger.....	(31,102,000)	(12,460,000)
Excess of cost of 247,200 shares of treasury stock (in- cluding 122,550 shares acquired in 1966 and retro- actively adjusted) over par value of common stock of Coastal Valley Canning Co. exchanged in merger	(813,000)	(4,499,000)
Amount at June 30, 1965 in accompanying consolidated balance sheet.....	—	4,471,000
Net income for the year.....	—	12,768,000
Excess of option price over par value of 71,480 shares of common stock issued on exercise of options.....	1,301,000	—
Excess of par value over cost of 5% preferred stock pur- chased.....	25,000	—
Deduct cash dividends declared:		
5% preferred stock.....	—	1,783,000
Common stock — \$.95 per share.....	—	4,653,000
Theo. Hamm Brewing Co. dividends prior to merger	—	2,325,000
Balance June 30, 1966.....	<u>\$ 1,326,000</u>	<u>\$ 8,478,000</u>

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

Years ended June 30, 1966 and 1965

Sources

	1966	1965
Operations:		
Net income.....	\$12,768,000	\$11,638,000
Charges not requiring funds:		
Depreciation and amortization.....	5,951,000	5,586,000
Other.....	56,000	764,000
Funds provided from operations.....	18,775,000	17,988,000
Sale of common stock.....	1,372,000	2,769,000
Sale of stock of merged company prior to merger.....	—	817,000
Sale of other assets of merged company.....	4,470,000	—
	<u>\$24,617,000</u>	<u>\$21,574,000</u>

Uses

	1966	1965
Cash dividends (including dividends of merged companies).	\$ 8,761,000	\$ 6,795,000
Excess of cost of subsidiaries' stock over equity in net as- sets acquired, allocated to goodwill and adjustment for minority interest.....	—	659,000
Purchase of treasury stock.....	1,077,000	—
Additions to property, plant and equipment.....	9,451,000	5,183,000
Additions to trademarks and contracts.....	24,000	1,473,000
Reduction of long-term debt.....	2,803,000	1,113,000
Purchase of remaining interest of affiliated company.....	1,185,000	—
Other.....	5,000	(39,000)
Increase in working capital.....	1,311,000	6,390,000
	<u>\$24,617,000</u>	<u>\$21,574,000</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Acquisitions — In November 1965 the Company acquired all of the common stock of Theo. Hamm Brewing Co. (Hamm) in exchange for 420,032 shares of voting 5% preferred stock, par value \$100 per share, and 200,031 shares of voting 5% convertible preferred stock, par value \$100 per share. Prior to the exchange, Hamm redeemed shares of its outstanding common stock having a par value of \$8,116,000 for \$28,000,000, principally from funds provided by the sale of its short-term investments. In June 1966 the Company acquired all of the common stock of Coastal Valley Canning Co. (Coastal) in exchange for 247,200 shares of its common stock held in its treasury (including 122,550 common shares acquired during fiscal year 1966). These acquisitions have been accounted for as poolings of interests and accordingly the consolidated statement of income for the year ended June 30, 1966 includes the operating results of operations of Hamm and Coastal for the full period, and the consolidated financial statements for the year ended June 30, 1965 have been retroactively adjusted to give effect to the foregoing transactions. As of June 30, 1965, these adjustments had the effect of reducing paid-in surplus by \$15,300,000 and earned surplus by \$16,125,000 from amounts previously reported. The consolidated statement of income has also been adjusted on a pro forma basis to eliminate income of \$175,000 in 1966 and \$697,000 in 1965, net of applicable income tax, derived from the short-term investments subsequently sold as mentioned above.

Note 2 — Preferred stock — Upon approval of stockholders, the Company amended its certificate of incorporation during the fiscal year 1966 to eliminate the then authorized but unissued 500,000 shares of cumulative preferred stock without par value and to authorize 500,000 shares of 5% preferred stock, par value \$100 per share and 200,500 shares of 5% convertible preferred stock par value \$100 per share (convertible into common stock at the present rate of three shares of common stock for each share of preferred stock). Both classes of preferred stock have voting rights, together with the common stock all voting as a single class, each share of the 5% preferred stock being entitled to one-half vote and each share of 5% convertible preferred stock being entitled to one vote on most matters other than for the election of directors. Each class of preferred stock, voting as a separate class, is entitled to elect one director. Under sinking fund provisions, the Company is re-

quired to redeem 4% of the aggregate value of the originally issued 5% preferred stock on December 30 in each year from 1971 to 1995 at \$100 per share. Both classes of preferred stock are subject to redemption in whole or in part at the option of the Company in the year beginning December 31, 1970 at \$105 per share and at \$1 less per share each year thereafter but not less than \$100 per share after December 30, 1975. At June 30, 1966, there were 600,093 shares of unissued common stock reserved for conversion of the outstanding 5% convertible preferred stock.

Note 3 — Stock options — Under the Company's "Restricted Stock Option Plan" adopted in 1958 and amended in 1961, options were granted to officers and key employees to purchase shares of the Company's common stock at prices not less than 95% of the fair market value at the date of grant. This plan provides that the term of any option may not exceed ten years and that options may not become exercisable earlier than one year after date of grant. No further options can be granted under this plan.

Options for the purchase of 87,669 shares were outstanding at June 30, 1966 (159,149 a year earlier) at prices ranging from \$18.47 to \$19.00 per share and averaging \$18.78 per share. Options relating to 49,988 shares at prices ranging from \$18.47 to \$19.00 per share were exercisable at June 30, 1966. During the fiscal year 1966, options for the purchase of 71,480 shares were exercised at an average price of \$19.20 per share.

A "Qualified Stock Option Plan" which complies with the Revenue Act of 1964 was adopted in 1964. This plan will terminate on October 21, 1974 or may be terminated earlier by the Board of Directors. Under this plan, options for the purchase of 500,000 shares may be granted at an option price of not less than the fair market value of the Company's common stock on the date of grant. The term of the options may not exceed five years. Options for the purchase of 73,500 shares at prices ranging from \$25.56 to \$33.19 per share were outstanding, but not exercisable, at June 30, 1966 (59,000 a year earlier). During the fiscal year 1966 options were granted for the purchase of 15,500 shares at prices ranging from \$25.56 to \$33.19 per share and averaging \$30.48 per share. An option for the purchase of 1,000 shares was terminated during the fiscal year. At June 30, 1966 there were 426,500 shares available for future grant (441,000 a year earlier).

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Heublein, Inc.

We have examined the accompanying consolidated balance sheet of Heublein, Inc. and subsidiaries at June 30, 1966 and the related consolidated statements of income, paid-in and earned surplus and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Heublein, Inc. and subsidiaries at June 30, 1966, the consolidated results of their operations and the source and use of their consolidated funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N.Y.
July 20, 1966

ARTHUR YOUNG & COMPANY

Heublein, Inc.

COMPARISON WITH PRIOR YEARS

<i>Dollars in thousands except per share statistics</i>	1966	1965	1964	1963	1962
Net sales.....	\$328,319	\$298,442	\$265,553	\$250,720	\$239,509
Net income.....	12,768	11,638	9,160	8,779	7,627
Net income as a percent of sales.....	3.89%	3.90%	3.45%	3.50%	3.18%
Advertising, merchandising and sales promotion	37,443	32,069	29,183	26,132	23,172
Taxes of all kinds.....	162,287	144,566	125,477	119,353	113,413
Dividends:					
Preferred requirements.....	3,075	3,100	3,100	3,100	3,100
Common.....	4,653	3,672	2,893	2,201	1,844
Earnings retained in the business.....	5,040	4,866	3,167	3,478	2,683
Depreciation.....	5,509	5,235	5,614	6,550	6,755
Capital expenditures.....	9,451	5,183	3,843	4,547	3,964
Net fixed assets.....	39,264	34,760	35,056	37,286	45,186
Working capital.....	28,789	27,478	21,088	20,326	6,662
Current asset ratio.....	1.7 to 1	1.8 to 1	1.6 to 1	1.5 to 1	1.1 to 1
Preferred stock.....	60,977	62,006	62,006	62,006	62,006
Per common share:					
Net income.....	1.90	1.69	1.23	1.16	.93
Common dividends:					
Cash.....	.95	.75	.60	.45	.38
Stock.....	—	—	—	—	1%
Income taxes.....	2.36	2.30	1.98	1.96	1.83
All taxes.....	31.78	28.70	25.55	24.31	23.31
Number:					
Employees.....	3,320	3,243	3,226	3,202	3,163
Common stockholders.....	13,232	13,606	11,440	11,647	11,142
Common shares.....	5,107,140	5,037,754	4,910,561	4,908,750	4,864,702
Preferred shares.....	609,773	620,063	620,063	620,063	620,063

The above statistical summary includes, in all years, amounts applicable to Theo. Hamm Brewing Co. and Coastal Valley Canning Co. acquired in fiscal year 1966 in transactions treated for accounting purposes as poolings of interests. The summary also gives retroactive effect to a redemption by Theo. Hamm Brewing Co. prior to the merger of 811,600 shares of its outstanding common stock having a par value of \$8,116,000 for \$28,000,000 and to the elimination of income on short-term investments sold to provide the funds for such redemption.

DIRECTORS

D. H. Ankeny
Christopher W. Carriuolo
Frederick E. Chapman*
Mary G. Falvey
Peter M. Fraser*
Edward H. Hamm

Ralph A. Hart*
Ed W. Kelley*
Thomas D. Mann
John G. Martin*
Thomas McMaster
William H. Mortensen*

Frances Heublein O'Dell
Joseph A. Prochaska
Richard Rapport
Lester E. Shippee*
Robert L. Trescher
J. Harold Williams

**Members of Executive Committee*

OFFICERS

Chairman

John G. Martin

Vice Chairman

Frederick E. Chapman

President and Chief

Executive Officer

Ralph A. Hart

Executive Vice President

Ed W. Kelley

Senior Vice Presidents

Christopher W. Carriuolo

Thomas McMaster

Joseph A. Prochaska

Vice Presidents

George W. E. Baldwin

William W. Behrman

Paul R. Dohl

Edward L. Hennessy, Jr.

William A. Kilby

Edward F. Murphy

Richard F. Nelson

Fred R. Nye

Martin J. O'Hagan

Dr. John B. Rehm

John M. Tyson, Jr.

Secretary

Mary G. Falvey

Treasurer

John A. Henry

Controller

John J. Moran

Assistant Secretaries

Leo Facciola

Charles E. Karl

Graham K. Muirhead

Henry J. Rogers

Assistant Controller

John P. Willis

THEO. HAMM BREWING COMPANY – subsidiary

President

Ralph A. Hart

Executive Vice President

Roy M. Westly

Vice Presidents

Arthur W. Crossley

H. S. Diffenderfer, III

J. Raymond Fox

James R. Fraser

Charles J. Herbert

Robert D. Hirshboeck

Leonard Johnson

Herman Vedder, Jr.

Secretary

Arthur W. Crossley

Treasurer

Robert Tough

Controller

Donald E. Albers

Assistant Secretary

Robert Tough

Assistant Controller

Richard Costello

TRANSFER AGENTS

The Bank of New York
48 Wall Street
New York, New York 10015

Continental Illinois National
Bank and Trust Co. of Chicago
231 So. LaSalle Street
Chicago, Illinois 60690

REGISTRARS

Morgan Guaranty Trust Co. of New York
23 Wall Street
New York, New York 10015

The Northern Trust Company
50 So. LaSalle Street
Chicago, Illinois 60690

SOME OF HEUBLEIN'S FINE PRODUCTS

